

BILL # HB 2130

TITLE: residential property tax; homesite area

SPONSOR: Barto

STATUS: As Amended By House WM

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

This bill provides a statutory definition of “homesite” for the purpose of assessing Class 3 (owner-occupied residential) property. Specifically, the bill provides that up to 10 acres of land can be designated a homesite and assessed as Class 3 property (which uses a 10% assessment ratio). Additionally, if physical conditions or legal restrictions, including zoning, prevent a parcel from being subdivided, the bill expands the homesite designation to include up to 40 acres of land.

Although there is currently no statutory definition of “homesite,” the Department of Revenue (DOR) has issued guidelines for county assessors to consider when assessing large parcels. Generally, DOR’s *Assessment Procedures Manual* prescribes that for land consisting of several acres; no more than one acre should be assessed as Class 3 property. The balance of the land is usually assessed as Class 2 property (vacant land, which uses an assessment ratio of 16%).

Estimated Impact

Based on extrapolations of property valuation data furnished by the Maricopa County Assessor’s Office, HB 2130 could have a General Fund cost of about \$1.4 million beginning in FY 2010. The bill would reduce statewide net assessed valuation (NAV), which would result in an increase of the state’s K-12 education formula cost. However, the fiscal impact resulting from the NAV loss could be offset by reducing the cost of automatic school tax rate reductions under the state’s truth-in-taxation (TNT) provisions. The net General Fund cost if the TNT savings are incorporated would be an estimated \$0.6 million beginning in FY 2010.

Analysis

According to the Maricopa County Assessor’s Office, HB 2130 would decrease its countywide NAV by an estimated \$(17.4) million. Since similar estimates could not be obtained from other counties, this analysis assumes a statewide NAV loss of \$(26.2) million. This figure was derived by dividing Maricopa’s NAV loss of \$(17.4) million by its share of total statewide NAV (66%). While the bill would result in a net reduction of total NAV of \$(26.2) million, Class 3 NAV would actually increase by an estimated \$43.6 million whereas Class 2 NAV would decrease by an estimated \$(69.8) million. The reason for this is that HB 2130 would change the classification of land previously primarily assessed as vacant land (Class 2) to owner-occupied residential property (Class 3).

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (39% in FY 2010) of residential school property taxes through the Department of Education’s Homeowner’s Rebate program. By reducing NAV by \$(26.2) million in tax year 2009, the bill will result in a direct increase of the state share of K-12 funding by \$1.4 million in FY 2010. This estimate includes the net impact on both Basic State Aid and the Homeowner’s Rebate.

The NAV reduction under HB 2130 will also generate savings in the cost of the state’s Truth in Taxation (TNT) program. TNT reduces the qualifying tax rate (QTR) to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2010, the school tax rate is expected to be reduced by 14.1¢ under existing statutes. However, the lower NAV under HB 2130 would result in the tax rate reduction being 0.2¢ less than under current law or 13.9¢, which constitutes a TNT saving of \$(0.8) million.

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As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund, beginning in FY 2010, will be about \$1.4 million. However, if the QTR is adjusted to account for TNT, the bill's General Fund cost would be limited to \$0.6 million.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

2/13/08